

OFFICE OF FINANCE PROGRAMS  
MARYLAND INDUSTRIAL DEVELOPMENT  
FINANCING AUTHORITY

(MIDFA)

ANNUAL FINANCIAL STATUS REPORT  
FISCAL YEAR 2013

ECONOMIC DEVELOPMENT  
ARTICLE

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As of June 30, 2013

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY  
(MIDFA)

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## **DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT**

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### **MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)**

#### **History and Program Description**

The Maryland Industrial Development Financing Authority (MIDFA or Program) was established by the Maryland General Assembly in 1965 to promote significant economic development by providing financing support to manufacturing, industrial and technology businesses located in or moving to Maryland. MIDFA stimulates private sector financing of economic development by issuing Bonds and providing credit enhancements that increase access to capital for small and mid-sized companies. The Program has increased its commitment to growth and development of small business by increasing outreach efforts to community banks.

The Fund does not provide direct loans, but insures Bonds, loans and certain other types of transactions from financial institutions. The Program promotes private sector financing by providing insurance to transactions resulting in reduced credit risks, and enabling better terms. As an insurance product, the Fund is allowed a 5:1 leverage of its capital base. Decisions rest with the 9-member board comprised of two ex-officio and seven private business members from throughout the state appointed by the Governor with the advice and consent of the Senate. In addition to credit risk assessment, the statute dictates that consideration be given to the impact that the expansion, retention, and attraction of strategic commercial enterprises has on a balanced economy, employment, and quality of life. The operating expenses of the program are funded through the interest earned on the fund balances, Bond issuance fees and through annual premiums of ½ of 1% of all insured transactions, unless waived in “qualified distressed” (One Maryland) jurisdictions.

#### **CONVENTIONAL LOAN PROGRAM**

The Conventional Loan Program primarily insures transactions made by conventional and asset-based financial institutions for working capital, fixed assets, letters of credit, leasing, and other related activities up to 80% of the obligation (90% for Trade) to a maximum of \$2.5 Million.

#### **TAXABLE AND TAX-EXEMPT BONDS**

Taxable and Tax-Exempt Industrial Revenue Bonds may be issued to finance fixed assets. Tax Exempt Bonds may finance manufacturing, 501(c) (3) non-profit corporations, and certain solid waste recovery projects. The Fund charges an 1/8 of 1% annual issuance fee. To facilitate the issuance of such bonds, the Fund may insure up to 100% of the obligation to a maximum coverage of \$7.5 Million.

#### **Program Performance Since Inception**

To date, the Program has participated in eight hundred seventy-eight (878) loans and bonds, totaling \$2,551,728,007. Currently, fifty-nine (59) transactions remain active, with principal balances totaling \$404,330,551 insured for \$16,368,279.

At June 30, 2013, the Fund balance net of reserves, of \$ 36,371,041 was leveraged .467:1 against the \$16,618,279 total insurance exposure consisting of \$ 16,368,279 outstanding plus the \$250,000 of approved commitments. As a practical matter given the still difficult economic environment, and the tightened credit standards in the capital markets, leverage beyond 1.5:1 could diminish the value of this credit enhancement in stimulating private sector participation. Accordingly, the Program is well-funded to support the economic upturn.

The following is a summary of the current balances and exposure by Program capability, excluding pending transactions.

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<i>(Thousands)</i>	<b>Current Insurance Exposure</b>	<b>Principal Balance</b>	<b>Number of Active Accounts</b>	<b>Average Insurance Exposure</b>
Bonds – insured	\$ 0	\$0	0	\$0
Bonds - uninsured	N/A	343,958	24	N/A
Energy Bonds	N/A	3,780	1	N/A
Conventional Loans	12,784	47,626	19	673
Day Care	0	0	0	0
Linked Deposits	N/A	0	0	N/A
Small Business	558	1,601	9	62
MIDFA-SSBCI	<u>3,026</u>	<u>7,366</u>	<u>6</u>	<u>504</u>
	<b>\$16,368</b>	<b>\$404,331</b>	<b>59</b>	<b>\$1,239</b>

### **Program Performance for the Year Ending June 30, 2013**

During Fiscal Year (FY) 2013, MIDFA approved six (6) transactions totaling \$24,345,417 insured for \$2,162,800. Nine (9) transactions, including two (2) approvals from prior years, settled totaling \$41,245,417 insured for \$7,223,800. At year-end one (1) approval remained pending settlement for \$850,000 insured for \$250,000. Four (4) approvals from prior years became inactive and were rescinded. The number of approvals for FY 2013 was one-third of the number for 2012 and the dollar amount only one-fifth. The settlements were comparatively robust, with settlements outpacing approvals, as three (3) settlements were from prior years and the amount of insurance was higher in both dollars and as a percentage than in FY 2012.

Special Assets declined from eight (8) accounts with reserves of \$4,076,422 to five (5) with reserves of \$2,265,666 due to the payoff of three (3) accounts and no additions. There were no claim payments made in FY 2013, in contrast to FY 2012 with the \$2,000,000 claim payment for the Bethesda Cultural Alliance, which had been the first claim payment since FY 2010. Although the economy is not as weak as last year, it continues to be very sluggish with much uncertainty in certain sectors, so we continue to expect reserves to increase and anticipate future claim payments, both from projects under severe cash flow strains and from the increased small business initiative which targets one of the more vulnerable sectors of the economy.

As a credit guaranty, MIDFA's activity is typically counter cyclical to the economy, being in greater demand during tight credit periods. In spite of the recession, the continued low interest rates enabled eleven (11) credit-seasoned transactions totaling \$166,343,464 to payoff or refinance. This is a portfolio decline of two (2) accounts but a dollar decline of \$144 million from 2012, with two (2) bond issues accounting for \$137 million. The AES \$74 million bonds were refunded by MEDCO and the Wexford bond deal for \$65 million was paid off as part of an acquisition by BioMed. In addition, \$5 million left the portfolio through seasoning of risk and "graduating" to un-enhanced private sector lending is a principal objective of the Program and restores capacity to meet future demand.

While the economy as a whole began to recover in 2013, small business borrowing and lending was still very uncertain, as evidenced in part by the number of approvals in FY 2012 that did not go to settlement. The recent upturn in business investment is primarily from larger companies with cash accumulated during the recession and not from increased borrowing. This upturn is leading to small business confidence in economic improvement that will lead to a slow return in borrowing by credit worthy companies. In spite of increased funding and outreach efforts, 2013 volume did decline in line with our projection in last year's report, although more steeply than anticipated. A total of nine (9) transactions settled in fiscal year 2013 consisting of (6) six current year and (3) three prior year approvals.

## **DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT**

MIDFA was instrumental in developing the State Small Business Credit Initiative (SSBCI) which was created under the Small Business Jobs Act of 2010. This U.S. Treasury program provides up to \$1.5 billion of federal funding to state programs that can leverage at least 10:1 of private sector small business lending during the program's seven (7) year life span. By Executive Order in March 2011, MIDFA was given responsibility to apply for and administer the State's SSBCI allocation of \$23 million. At the end of FY 2011, we received the first installment and are continuing to work on deploying the funds.

### **Projected Program Performance for Fiscal Year 2014**

In the last year, we have noticed some return to borrowing demand, and we are seeing some viable transactions. Currently under discussion are nine (9) transactions with \$2.2 million in guarantees leveraging \$22.3 million of private sector lending and resulting in CAPEX of more than \$98 million.

Recently smaller banks are starting to experience a surge in loan growth compared to the 25 largest banks, driven by the business customer. Such a trend in the marketplace indicates a likely increase in volume for MIDFA, as the source for most of the requests for guarantee approvals comes from middle market to small business lenders. Factors driving this trend away from the largest banks are a perception of regulatory uncertainty, excess paperwork demands, and smaller banks being more willing to consider loans with some risk.

# Approved Report

7/1/2012 Through 6/30/2013

<i>Approved Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro / Actual</i>	<i>New Retained Jobs</i>	<i>Jobs</i>
<i>MIDFA Tax Exempt Bonds</i>										
3/28/2013	Associated Catholic Charities	9660201	\$19,055,416.95	0.0%	\$0.00	Multiple	\$20,600,000.00	N/A	0	0
<b>Totals:</b>	<b>1 Loan</b>		<b>\$19,055,416.95</b>		<b>\$0.00</b>		<b>\$20,600,000.00</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>MIDFA Conventional Insurance</i>										
8/27/2012	Envirocon Associates, Inc.	14140101	\$500,000.00	50.0%	\$250,000.00	Baltimore County	\$500,000.00	N/A	3	10
9/27/2012	Protenergy Natural Foods Corpo	7650401	\$3,600,000.00	42.0%	\$1,512,000.00	Dorchester	\$3,800,000.00	N/A	0	0
2/20/2013	Little Chicks, Llc	14460101	\$850,000.00	29.4%	\$250,000.00	Queen Anne's	\$1,098,000.00	N/A	0	4
<b>Totals:</b>	<b>3 Loans</b>		<b>\$4,950,000.00</b>		<b>\$2,012,000.00</b>		<b>\$5,398,000.00</b>	<b>0</b>	<b>3</b>	<b>14</b>
<i>MIDFA/SSBCI</i>										
8/28/2012	Practical Intelligence, LLC	14160101	\$100,000.00	50.0%	\$50,000.00	Anne Arundel	\$115,000.00	N/A	3	0
10/3/2012	Yogurazzi, LLC dba PopDream	14280101	\$240,000.00	42.0%	\$100,800.00	Baltimore County	\$302,000.00	N/A	3	0
<b>Totals:</b>	<b>2 Loans</b>		<b>\$340,000.00</b>		<b>\$150,800.00</b>		<b>\$417,000.00</b>	<b>0</b>	<b>0</b>	<b>6</b>
<b>Grand Totals:</b>	<b>6 Loans</b>		<b>\$24,345,416.95</b>		<b>\$2,162,800.00</b>		<b>\$26,415,000.00</b>	<b>0</b>	<b>0</b>	<b>9</b>

# Settled Report

**7/1/2012 Through 6/30/2013**

<i>Settled Date</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total Project Costs</i>	<i>Trainees Pro / Actual</i>	<i>New Retained Jobs</i>	<i>Jobs</i>
<i><b>MIDFA Tax Exempt Bonds</b></i>										
6/3/2013	Associated Catholic Charities	9660201	\$19,055,416.95	0.0%	\$0.00	Multiple	\$20,600,000.00	N/A	0	0
<b>Totals:</b>	<b>1 Loan</b>		<b>\$19,055,416.95</b>		<b>\$0.00</b>		<b>\$20,600,000.00</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i><b>MIDFA Conventional Insurance</b></i>										
10/1/2012	Envirocon Associates, Inc.	14140101	\$500,000.00	50.0%	\$250,000.00	Baltimore County	\$500,000.00	N/A	3	10
10/24/2012	CFBC Properties Funding, LLC	12250101	\$8,595,000.00	30.0%	\$2,578,500.00	Allegany	\$11,649,000.00	N/A	98	150
11/7/2012	Protenergy Natural Foods Corpo	7650401	\$3,600,000.00	42.0%	\$1,512,000.00	Dorchester	\$3,800,000.00	N/A	0	0
<b>Totals:</b>	<b>3 Loans</b>		<b>\$12,695,000.00</b>		<b>\$4,340,500.00</b>		<b>\$15,949,000.00</b>	<b>0</b>	<b>101</b>	<b>160</b>
<i><b>MIDFA/SSBCI</b></i>										
9/20/2012	Practical Intelligence, LLC	14160101	\$100,000.00	50.0%	\$50,000.00	Anne Arundel	\$115,000.00	N/A	3	0
10/22/2012	M. Luis Construction Co., Inc.	13730101	\$8,600,000.00	29.07%	\$2,500,000.00	Montgomery	\$8,600,000.00	N/A	56	183
11/29/2012	Yogurazzi, LLC dba PopDream	14280101	\$240,000.00	42.0%	\$100,800.00	Baltimore County	\$302,000.00	N/A	3	0
2/20/2013	Brooklyn Park Gas, Inc.	13740101	\$180,000.00	25.0%	\$45,000.00	Anne Arundel	\$317,000.00	N/A	5	14
<b>Totals:</b>	<b>4 Loans</b>		<b>\$9,120,000.00</b>		<b>\$2,695,800.00</b>		<b>\$9,334,000.00</b>	<b>0</b>	<b>0</b>	<b>67</b>
<i><b>MIDFA-Small Business</b></i>										
3/26/2013	Martin Fast Foods of West Virg	12090101	\$375,000.00	50.0%	\$187,500.00	Garrett	\$1,470,000.00	N/A	16	0
<b>Totals:</b>	<b>1 Loan</b>		<b>\$375,000.00</b>		<b>\$187,500.00</b>		<b>\$1,470,000.00</b>	<b>0</b>	<b>16</b>	<b>0</b>
<b>Grand Totals:</b>	<b>9 Loans</b>		<b>\$41,245,416.95</b>		<b>\$7,223,800.00</b>		<b>\$47,353,000.00</b>	<b>0</b>	<b>0</b>	<b>184</b>